Behm, Andrew - PSC

From:	Behm, Andrew - PSC
Sent:	Tuesday, April 27, 2010 12:59 PM
To:	Pat Planton (pplanton@sehinc.com)
Subject:	Explanation of allocations on schedule 11 of exhibit 12.2 in docket 3720-WR-107
Attachments:	detail of schedule 11 3720-WR-107.pdf; detail of schedule 8 3720-WR-107.pdf

Pat,

This is a follow up to our phone conversation this morning. You noted the allocations on schedule 11 are not, as they usually are in PSC staff exhibits, simply the totals in the leftmost column of schedule 11 multiplied by the allocation factors from schedules 9 and 10. This is due to the differential rate of return. The two attachments should make more sense of the schedule 11 numbers.

Detail of schedule 8:

The two lines in regular type are the return on rate base at the retail rate of return of 5.0 percent and the wholesale rate of return of 6.5%. The total return in each case is distributed to the cost functions on the basis of utility financed plant as shown on schedule 5 of the exhibit.

The two lines in bold type show the total expenses allocated to each cost function for each rate of return. These are simply the return on rate base lines above them plus the operation and maintenance, depreciation, and taxes line from schedule 8. These lines are carried over into the second attachment.

Detail of schedule 11:

The two columns are the bold rows from the first attachment shown vertically. The left-hand column represents the retail rate of return; the right-hand column represents the wholesale rate of return. The allocation of a given cost function to a given class is found by multiplying the appropriate column by the allocation factor for that class and cost function.

I will use the same example you used on the phone this morning, which was base system costs to urban residential. From the left-hand column, the base system cost at the retail rate of return is $39,189,052. From schedule 9, base system costs are allocated 30.44 percent to urban residential. $39,189,052 * 0.3044 = $11,929,147. This result is off by an immaterial amount for rounding because schedules 9 and 10 only show allocators rounded to two decimal places.

The two columns are allocated out to the classes, and the allocations to all classes for each cost function are totaled into the leftmost column of schedule 11 in the exhibit. This column then becomes the row of totals in bold type shown on schedule 8 of the exhibit. The return on rate base shown for each cost function is simply the difference between the sum of operation and maintenance, depreciation, and taxes allocated to that cost function and the total for that cost function.

So you can see that while return on rate base for each rate of return is initially allocated based on utility financed plant, once the two rates of return are combined it no longer appears to be.

I hope this helps explain where these numbers came from. Please let me know if this is unclear or if you have further questions.

Andrew Behm, Public Utility Rate Analyst
Public Service Commission of Wisconsin
(608) 266-1282